April 2025

CERUTTY
MACRO FUND

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Cerutty Macro

Cerutty Macro Fund is an independent active manager of global, but predominantly Australian equities. The Manager applies a detailed investment process, using identified macroeconomic trends as the foundation of its allocation. Coupled with analysis of the liquidity cycle and bottom-up research, we aim to deliver attractive returns to investors over a 3-year time horizon.

The Fund's portfolio is a high conviction portfolio ranging from 15-40 positions in equities, to scale between high/low concentration allocations depending on liquidity conditions. It is the Fund's perspective that financial market liquidity has a large impact on asset prices, thus it being a vital component to the investment process. Cerutty's investment process is:

- Macro Themes
- Liquidity Cycle
- Bottom-up

Fund Performance

	Fund %	Index %	Excess %
1 Month	0.88	1.84	-0.96
3 Month	2.02	-4.58	6.60
1 Year	15.57	3.73	11.84
Since inception (annualised)	17.38	7.62	9.76

Index/Benchmark ASX Small Ordinaries Accum. Index

Fund Overview

Portfolio Management	Chris Judd
No. Investments	15-40
Type of Investments	Long only Australian listed equities Global listed equities
Time Horizon	3+ years
Benchmark	ASX Small Ords Accumulative Index
Management/Performance Fee	1.20% & 20% over benchmark

Past performance is no indication of future performance & returns are post fees with reinvestment of distributions and capital gains.

Monthly Update

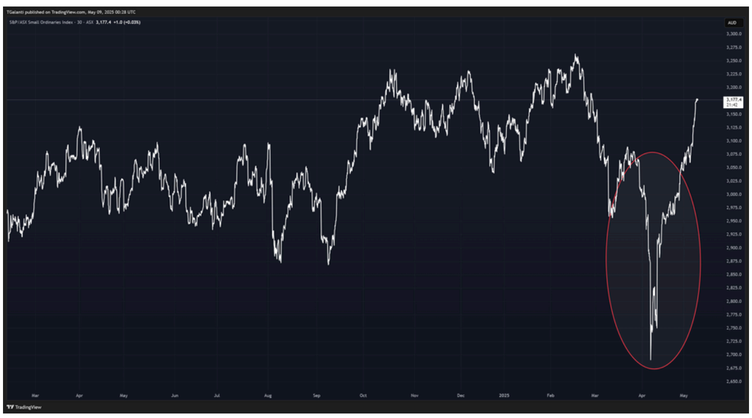
April was marked by heightened volatility across global markets, driven largely by President Trump's increased tariff rhetoric and his "America First" economic agenda. In Australia, the ASX Small Ordinaries Accumulation Index delivered a 1.8% return, while the Cerutty Macro Fund achieved a 0.9% gain for the month, giving Cerutty a trailing 12 month return of 15.6% vs our benchmark of 3.7%.

Although President Trump and Treasury Secretary Scott Bessent have repeatedly stated since taking office that stock market performance is not their primary concern, by mid-April, sharp declines in equities and US Treasury prices prompted them to alter their tone. On April 22, Trump and Bessent made a coordinated public effort to reassure markets, signalling a de-escalation of the trade dispute with China. Trump announced he would refrain from further aggressive tariff measures, and both he and Bessent indicated that existing tariffs would "come down substantially"- interpreted by insiders as a reduction to the 50–65% range from much higher levels. Trump also publicly retracted his threat to dismiss Federal Reserve Chairman Jerome Powell, easing concerns about central bank independence.

Until now, it was unclear how much market distress would be necessary before the administration sought to calm investors. In April, that threshold appeared to be reached. While the administration's statements provided some relief, uncertainty around tariffs and their implementation persists. Analysts are now debating which side holds the advantage. While consensus suggests surplus nations are more exposed in a high-tariff environment, China's capacity to endure economic discomfort is widely regarded as greater than that of the US, given its political structure and lack of electoral pressures.

China to U.S. Container Bookings

ASX Small Ords April Volatility



Source: TradingView, May, 2025

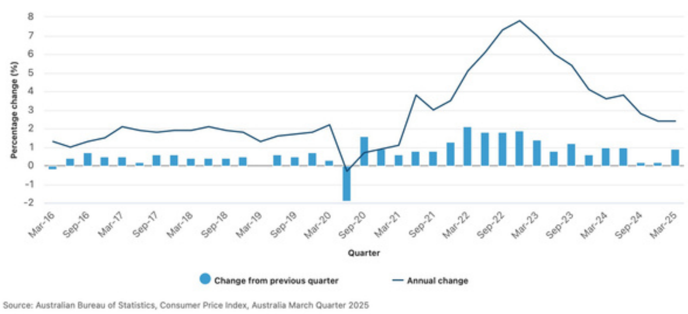
Monthly Update

With US mid-term elections approaching in November 2026, it feels like Trump is working on timeline constraints not experienced by China. For Trump to achieve his policy objectives, a strong mid-term result is essential to maintain control of Congress. And in an economy as financialised as the US, financial markets need to be strong for the real economy to be operating at a level conducive to a positive mid-term result for the Republicans. As the mid-terms near, China's negotiating leverage may grow, given the Trump administration's need for both a robust economy and strong markets by November 2026.

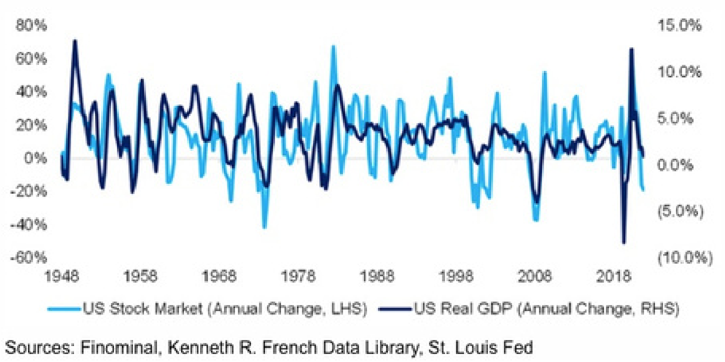
Domestically, inflation data released on April 20 showed CPI rising 2.4% in the year to March 2025, within the RBA's 2–3% target range. This suggests that Australia's inflation spike that began during COVID has moderated significantlly. Should the US–China trade dispute persist, further disinflationary pressures could emerge as surplus Chinese goods are redirected to Australia and other markets, potentially at discounted prices. Shipping costs from China to Australia are already falling, and some retailers, are rumoured to be capitalising on the situation by negotiating better terms with Chinese suppliers.

We continue to expect the RBA to cut rates at its meeting on May 20. NAB forecasts a 50-basis point cut, while CBA and ANZ anticipate a 25 basis point reduction. For the remainder of 2025, consensus points to four 25 basis point cuts, and we are inclined to expect four or more, as disinflation and a subdued economic environment persist in Australia.

Australia CPI, Quarterly and Annual Movement (%)



US Real GDP Growth vs US Stock Market Returns



Position Spotlight - Adairs (ADH.AX)

With Australia's rate cutting cycle kicking off in March and three additional cuts expected by CY25 end, the Fund has been actively looking for exposure to potential winners at reasonable valuations. Following the RBA's steep rate hike cycle, Australians suffered one of the quickest declines of real disposable income in recent history. Whilst the U.S. and OECD experienced growth of 9.3% and 7.7% above pre-pandemic levels respectively, Australians felt a decline of 2%. Economists believe this is largely due to our exposure to variable rate home loans (Australia ~85% v. U.S. ~5%), the ~37% increase in average mortgage size over the Covid period from ~$490k to ~$670k and pace of rate hikes undertaken by the RBA.[1]

While the above has been true on the way down, we suspect Australians' real disposable incomes should have a greater positive 'torque' on the way up, as they experience material financial relief from further rate cuts. The market currently implies an additional 3-4 rate cuts of 25bps by year end, with NAB being far more dovish than consensus, calling for a 50bps cut in May.

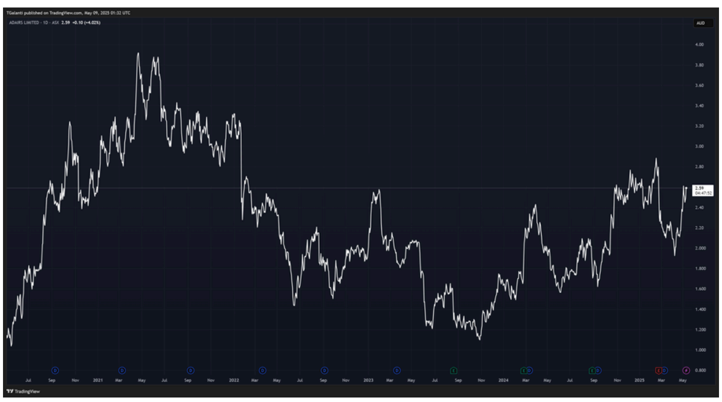
We anticipate that Australian retailers will significantly benefit from the forthcoming rate relief, a factor which we believe has not yet been fully priced into current valuations. Considering the above macro backdrop, the Fund recently took a position in homewares retailer, Adairs. The stock currently trades on ~10x FY26 earnings, is highly cash generative and management is well aligned for near-term success.

Like many ASX listed retailers, Adairs experienced Covid-roll-over pains, overextending during a period of extreme growth and being too slow to react during the eventual normalisation. As costs are readjusted and the top line returns to growth, we expect margins will improve across the business and operating leverage to trend towards 16-17%. Whilst not base case in our assumptions, there is an increasingly popular view that Australian retailers might experience some further margin expansion thanks to the U.S. trade war. Perpetual Asset Management have recently noted Solomon Lew's Premier Investments is currently renegotiating better terms with Chinese partners, as China looks to divert trade away from the U.S.[2] If the trend plays out, we suspect Adairs might also benefit from cheaper goods and expand margins above market expectations.

Returning focus back to the direction of the business, the board successfully signed Elle Roseby as new Managing Director and CEO in September of last year – officially joining in January 2025. Elle has experience running multiple well-known Australian brands over the past couple decades, although most recently and successfully, managing Country Road. While not only being a respected name in the retail space, during her 6 years running the Country Road brand, she managed to double revenue and quadruple earnings. As alluded to above, the board has set some very encouraging Long-Term Incentives (LTIs) for management, aligning them to success beyond current market expectations. These incentives are based on achieving EPS of a minimum 29cps (30% vested) by FY27 and pro-rata on a straight-line basis to 36cps at the top end. For added context, market consensus earnings for FY27 is currently 29cps, which would be the minimum result for their LTI scheme. Whilst not our base case, we're pleased that management was happy to accept an incentive plan that fully vests if consensus is beaten by ~25%.

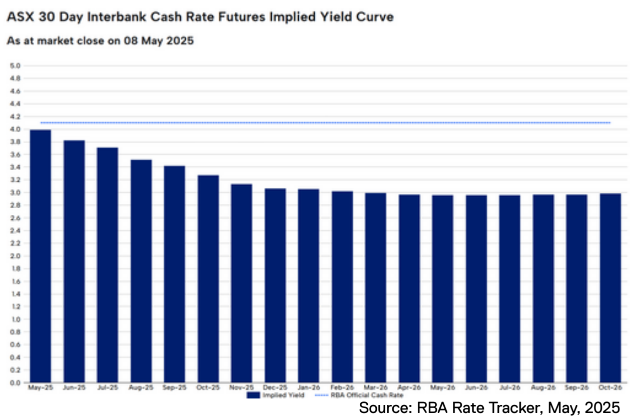
With a refreshed leadership team, supportive macro tailwinds, and a renewed focus on operational efficiency, Adairs is well placed to navigate a more constructive consumer environment over the coming years. The Fund will continue to monitor progress under the new CEO's leadership, particularly the trajectory of margins, store rollouts and the struggling Focus on Furniture division.

Adairs 5-Year Price Graph



Source: TradingView, May, 2025

Implied RBA Cash Rate



Source: RBA Rate Tracker, May, 2025

1. https://www.afr.com/policy/economy/how-australia-became-the-world-s-biggest-cost-of-living-loser-20241118-p5krgk
2. https://www.livewiremarkets.com/wires/the-asx-stocks-fundies-are-eyeing-right-now

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